

## FIRM PROFILE

- SEC registered investment adviser
- Located in Arlington, Virginia
- \$1.2 billion in AUM (as of 9/30/13)
- Independent; 100% employee-owned
- Manage a single strategy

## PORTFOLIO MANAGERS

These professionals have worked together since 2004 applying the same investment approach.

### David S. Rainey, CFA

26 years of investment experience

### Brian E. Macauley, CFA

13 years of investment experience

### Ira M. Rothberg, CFA

11 years of investment experience

## INVESTMENT PHILOSOPHY

We approach investing in a common stock with the mindset that we are taking long-term ownership position in the underlying business. We seek to own secular growth businesses at discount valuations. Over our anticipated 5 to 10 year investment horizon, we expect our return in a stock to approximate the growth in earnings power at the business. We believe that rigorous fundamental research can help identify such wealth creating businesses. We concentrate capital in our best ideas while seeking to maintain prudent exposure limits to any one industry or business driver. Our risk control efforts are focused on trying to protect against the permanent loss of capital - we do this by seeking to own fundamentally sound businesses trading at modest valuations.

## Objective

The Focus Equity Strategy seeks long-term capital appreciation while incurring a low risk of permanent capital loss.

## Approach<sup>1</sup>

- Concentrated portfolio: 20-30 companies that in our view have:
  - Strong competitive positions
  - Large growth opportunities
  - Excellent management
- Conviction-weighted:
  - 60-80% of assets in top 10 positions
  - Largest position size typically 8-10%
- Low turnover: about 15% average annual

This Strategy uses fundamental research in an effort to identify high quality, well run growth companies trading at discounts to intrinsic value. The Strategy is long-term oriented and invests with an expectation of owning a company for at least 5 years. Portfolios are concentrated with about 20 to 30 holdings, and investments are conviction-weighted in the portfolio managers' best ideas. The Strategy seeks investments from a diversity of industries but does not factor benchmark index weightings into its process.

## Strategy Overview

- ❖ U.S. Equity; Long-Only
- ❖ Composite inception: 8/22/09
- ❖ Strategy AUM: \$1.2 billion
- ❖ Vehicles: separate accounts; mutual fund (sub-advised)

Composite Performance <sup>2</sup> For period ending 9/30/13	AVERAGE ANNUAL TOTAL RETURNS			SINCE INCEPTION (8/22/09)	CUMULATIVE SINCE INCEPTION (8/22/09)
	YTD 2013	1 YEAR	3 YEAR		
Gross of Fees	25.4%	33.8%	20.6%	20.0%	111.2%
Net of 1.0% Fee	24.5%	32.5%	19.5%	18.8%	102.8%
<i>Russell 3000 Index</i>	21.3%	21.6%	16.7%	15.8%	82.9%
<i>S&amp;P 500 Index</i>	19.8%	19.3%	16.3%	15.2%	78.7%

## Summary Statistics from a representative separate account (9/30/13)<sup>3</sup>

Metrics		Top 10 Positions	% of Assets
Number of Holdings	23	O'Reilly Automotive, Inc.	9.6
Market Cap (median)	\$5.8B	Carmax, Inc.	9.2
Market Cap (wtd avg)	\$29.6B*	Bally Technologies, Inc.	8.7
Price-to-Est. Cash Earnings (wtd avg; using 2014 Broad Run est.)	16.2x	Penn National Gaming, Inc.	7.9
Est. Cash EPS Growth Rate (wtd avg; using 2014 Broad Run est.)	18%	American Tower Corp.	7.9
		Markel Corp.	7.2
		21 <sup>st</sup> Century Fox, Inc.	6.4
		Aon plc	5.8
		Google Inc.	5.1
		The Charles Schwab Corp.	4.4
		<i>Top 10 Total</i>	72.2

\*\$15.3B excluding position in Google, Inc.

## THE BROAD RUN DIFFERENCE

**Consistency: People, Philosophy, Process...** The firm's founders have worked together since 2004 using the same approach

**Concentrated...** We believe great investments are rare, so we concentrate capital and our time in our best ideas

**Long-Term Horizon...** With so many others focused on the short-term, we believe a long-term view provides perspective and opportunity

**Proprietary Research...** With a concentrated, low turnover portfolio, we can put more research time into each idea

**Cost Efficiency...** Over the long-term, our low turnover approach should result in relatively low trading costs and tax-efficient portfolios

<sup>1</sup> The approach as described is the general approach of Broad Run Investment Management, LLC ("Broad Run" or "we"). We reserve the right to change elements of our approach given market conditions, client restrictions and/or other factors.

<sup>2</sup> **Composite Definition.** The performance presented is for Broad Run's Focus Equity Strategy Composite. The Focus Equity Strategy invests primarily in U.S. equity securities and seeks long-term capital appreciation while incurring a low risk of permanent capital loss. The Strategy uses a concentrated and low turnover investment approach, and generally seeks to invest in what we believe are high quality growth-oriented companies trading at discounts to our assessment of their intrinsic value. The inception date of the Focus Equity Strategy Composite is August 22, 2009.

**Composite Construction.** The Composite is comprised of all fully discretionary fee paying accounts that are managed according to Broad Run's Focus Equity Strategy. New accounts that are managed according to the Strategy are added at the beginning of the first full calendar month for which the account is under management. Closed account data is included in the Composite in order to eliminate survivorship bias. For the time period 8/22/09 to 10/26/12, the Composite is composed solely of an equity mutual fund. Broad Run's Managing Members served as Portfolio Managers for this equity mutual fund while employed at the fund's investment advisor. For the time period 10/27/12 to 2/28/13, the Composite is composed solely of the successor equity mutual fund to the aforementioned equity mutual fund. Broad Run is engaged as the sub-advisor of this successor equity mutual fund by its new investment advisor, and Broad Run's Managing Members serve as Portfolio Managers for this successor equity mutual fund. For the time period after 2/28/13 the Composite is composed of this successor equity mutual fund and separate accounts. Currently, the assets in the mutual fund comprise a significant majority of the Composite's assets.

**Composite Performance Calculation Methodology and Fees.** The Composite performance figures reflect the deduction of brokerage or other commissions and the reinvestment of dividends, interest income and capital gains. Composite percentage returns are presented both gross and net of fees using monthly data.

Gross performance returns are presented before management and all other fees, where applicable, but after trading expenses. Gross percentage returns for the equity mutual fund and its successor are derived by grossing up the monthly Investor-class net return by its monthly-equivalent SEC reported total expense ratio. For administrative convenience, Broad Run uses the fund's Investor class shares for the foregoing calculation. The SEC reported total expense ratio includes advisory fees and other fees and expenses, and is obtained from the fund's previous fiscal year end annual report and is adjusted annually. Gross percentage returns for the separate accounts are calculated in Advent AXYS using the Modified Dietz Method with trade date accounting, daily time weighted rates of return, and cash accounting for dividends and interest income. Advent AXYS calculates the monthly separate account gross return by rolling together and asset-weighting applicable separate accounts to calculate a daily gross return adjusted for inflows and outflows. These daily gross returns are then geometrically linked to create a monthly separate account gross return. The monthly equity mutual fund gross return and monthly separate account gross return are then asset-weighted based upon beginning of period values to compute the monthly Composite gross return.

The monthly Composite net return is calculated by deducting the monthly-equivalent amount of our highest applicable management fee of 1.00% ("Model Net Fee"), as described in our Form ADV, Part 2A (without the benefit of breakpoints) from the monthly Composite gross return. As described above, the Composite includes a mutual fund for which we charge a sub-advisory fee that is lower than Model Net Fee. However, the mutual fund's total operating expenses, which are inapplicable to you, are in excess of the Model Net Fee. Therefore, the actual performance of the mutual fund in the composite on a net fee basis will be different, and will normally be lower, than the Model Net Fee performance. However, the Model Net Fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to you to the gross performance of the composite. Actual fees and expenses in client accounts may differ from those reflected in this composite presentation and would cause actual performance to differ. The monthly Composite gross and net returns are geometrically linked to calculate time-weighted rates of return for periods greater than one month and geometrically averaged to calculate average annual total returns.

The performance figures do not reflect the deduction of any taxes an investor might pay on distributions or redemptions. All returns are calculated in US dollars.

<sup>3</sup> Unless otherwise indicated, all data provided is as of the date cited. Information provided is from a representative separate account managed using the Focus Equity Strategy. The price-to-estimated cash earnings ratio is calculated by dividing a security's price (as of the date cited in the Summary Statistics chart) by Broad Run's estimate of cash EPS for the calendar year noted. Individual security price-to-estimated cash earnings ratios are weighted based upon security position size in the account to determine the cited price-to-estimated cash earnings ratio. Estimated cash EPS growth rate is a percentage change calculated by dividing Broad Run's estimate of a security's cash EPS (for the calendar year noted), by the actual (or Broad Run's estimate if actual is not yet reported) cash EPS for the twelve months prior to the noted period. Individual security estimated cash EPS growth rates are weighted based upon security position size in the account to determine the cited estimated cash EPS growth rate.

#### **Other Disclosures**

**Index Disclosure.** The S&P 500 Index is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. Both indexes are market-value weighted. Index figures reflect the reinvestment of dividends and capital gains. Index figures do not reflect deductions for any fees, expenses, or taxes. Investors cannot invest directly in an index. The indices' performance returns are included to illustrate the general trend of the U.S. equity market and are not intended as benchmarks for the Composite.

**Investing Involves Risk.** Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results and client accounts may not achieve the Focus Equity Strategy's investment objective. There may be market, economic, or other conditions that affect client account performance, or the performance of the referenced market index. The Strategy invests in small and medium size companies. Investments in these companies, especially smaller companies, carry greater risk than is customarily associated with larger companies for various reasons such as increased volatility of earnings and business prospects, narrower markets, limited financial resources and less liquid stock. A client account invested in the Focus Equity Strategy will hold fewer securities and have less diversification across industries and sectors than a diversified portfolio, such as a portfolio based on the index. Consequently a client account and/or the Composite performance may diverge significantly from the referenced market index, positively or negatively.

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